

Maryland Agricultural Land Preservation Program

DETERMINING YOUR ASKING PRICE

This Fact Sheet describes how to determine your "Asking Price" in applying to sell an easement to the Maryland Agricultural Land Preservation Foundation.

Determining Your Asking Price

The Maryland Agricultural Land Preservation Program is a highly competitive program that, in recent years, due to the volume of applications and limited funding, has made offers to only about one-third of its applicants. Your Asking Price may be of critical importance to whether you are made an offer or not. Your Asking Price is the price at which you are willing to sell the development rights on your property to the Foundation.

If your property is in a county that ranks its applicants in part based on their willingness to discount the sale of easements to the Foundation, the probability of getting an offer in Round One and Two depends on a competitive Asking Price. If your county does not use discounting to rank properties and your property ranks too low by county criteria for an offer in Round One, the probability of receiving an offer in Round Two depends on a competitive Asking Price when compared statewide to other easement applicants.

You should think of your Asking Price as a bid that puts your application in competition with other applicants. Setting too high of an Asking Price may result in not receiving an offer. Setting too low of an Asking Price may result in an offer that you are unwilling to accept.

Your first step in deciding your asking price should be to consult with your county's program administrator about the county's ranking system and the recent experiences its applicants have had in competing for offers. If you are still unsure of what your Asking Price should be, consider following these steps in calculating an acceptable competitive Asking Price.

1. DETERMINE THE EASEMENT VALUE

The Easement Value is the Fair Market Value (that which a developer might pay) **minus** the Agricultural Value (that which a farmer might pay). You can estimate the Fair Market Value of your property based on recent comparable sales in your area and/or the appraised values of recent applicants to the program in your county. You could also have your property appraised at your expense. If you decide to have your property appraised, your local program administrator or the Foundation can provide you with a list of appraisers qualified to perform appraisals for the State and the guidelines necessary to meet State requirements for the program. If you have obtained your own appraisal, you may submit a copy with the application and it will be considered with the two appraisals ordered by the State.

The Foundation determines Agricultural Value by a formula that calculates land rent based on the soil productivity OR the five-year average cash rent in the county, whichever is lower. While this value varies by property and year, you can obtain an estimate from your local program administrator. Once you have both an estimated Fair Market Value and Agricultural Value, you can estimate the Easement Value of your property.

Example:

\$4,000 per acre - estimated Fair Market Value
\$1,200 per acre - minus estimated Ag. Value
\$2,800 per acre - equals estimated Easement Value

2. APPLY A COMPETITIVE DISCOUNT

By your own sense of how much competition you face from other applicants, you may wish to discount a percentage of the Easement Value you have estimated. If, for example, you feel that a 20 per cent discount is sufficient to guarantee an offer that will be satisfactory to you, you would multiply the estimated Easement Value by 0.8. Using the figures above, your Asking Price would be:

\$2,800 per acre - estimated Easement Value
0000.8 - multiplied by 20% discount factor
\$2,240 per acre - equals: Asking Price

3. CONSIDER TAX INCENTIVES

You may consider adjusting your Asking Price based on the impact tax incentives can have on your sale of the easement. Selling an easement for less than the Easement Value may qualify you for certain tax benefits. Discounting from the Foundation-determined Easement Value does not establish your eligibility for tax benefits because the Foundation's calculation of the Easement Value does not meet IRS standards. The IRS requires that you acquire an independent appraisal of the easement value meeting its standards. You may wish to consult a tax professional to understand IRS requirements to establish your eligibility for these benefits and to determine the likely effect of Maryland's state income tax credit, the Federal income tax deduction, state and local property tax credits, and other tax benefits. Foundation staff cannot provide tax advice to Program participants nor guarantee eligibility for tax benefits. See the fact sheet entitled: "Tax Considerations in Selling Your Easement" for additional information.

This fact sheet is a public document and is provided for general information only. If you have a question about a specific law, regulation, or provision of the district agreement, option contract, or deed of easement, please consult legal counsel.

Last revision: December 19, 2008



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<http://www.malpf.info/facts/fact03.pdf>